The Hedgehog, the Fox and the Hounds

How the FCDO Can Deliver its Vision for Development

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"For there exists a great chasm between those, on one side, who relate everything to a single central vision, one system, less or more coherent or articulate, in terms of which they understand…and, on the other side, those who pursue many ends, often unrelated and even contradictory, connected, if at all, only in some de facto way." Isaiah Berlin, (1953) "The Hedgehog and the Fox"

SUMMARY: EXPANDING THE MENAGERIE

Being a force for good in the world is more than about branding, or even good intentions: it requires impact and an organization capable of it. The Foreign, Commonwealth and Development Office's (FCDO) vision offers a good starting point for being a values-driven force for good in the world, but within that vision there are potential tensions that need to be managed, rather than left to seethe. Even the current portfolios of the Foreign and Commonwealth Office (FCO) and the Department for International Development (DFID) have inconsistencies, such as the pursuit of short-term development gains without sufficient eye for long-term change or the transactional pursuit of favours and contracts, while claiming to project (but really undermining) UK values of transparency or open procurement.

As we wrote before, the DFID/FCO merger should not be a centaur, but more like a puggle. We expand the menagerie, adding the hedgehog's singular clarity of vision, the flexible toolkit of a fox, and introducing the hounds that will inevitably chase the FCDO and which must be kept at bay by a culture of innovation and impact, driven by internal and external accountability.

The hedgehog: Pursuing development is most effectively done by dropping the quest for silver bullets or isolated quick wins and focus on *complementary* actions for higher impact. The merger is a direct opportunity to exploit this far more, and allows the pooling of resources, expertise and diplomacy to pursue development objectives more effectively. What is done in the name of development, anywhere in the world, needs to reflect a clear need, but also an opportunity for impact working with partners, within the clarity of the UK national interest. The pursuit of the national interest cannot be based on opportunistic short-term indicators like "British jam sold," but ought to be driven by a clear

projection of UK values such as transparency, accountability, and open and equal partnerships, rather than succumbing to the standards other geopolitical players may set: this is enlightened self-interest, and the hedgehog would be proud of it. We argue that:

- Poverty eradication, resilience including to climate change, security, prosperity, and open societies are the right global goals for the FCDO to pursue.

- The FCDO needs to embrace an overarching vision of its development work to resolve potential tensions in approach (for example, between transactional objectives and those that better model UK values). The values of fairness, morality, transparency, and open and equal partnerships are a good basis. All actions should be consistent with them.

- To implement this vision, **the FCDO should adopt a geographically focused organizational structure**, with centralized objective setting and accountability, but decentralized implementation and delivery with relatively few large centrally managed programmes.

The fox: In implementation and action, the FCDO cannot be single-minded, but requires the flexibility and nimbleness of the fox. We propose therefore a differentiated country model, reflecting need and development challenges, but also the scope for impact through partnerships within the confines of the pursuit of the national interest, based on projecting UK values to reflect what it is to be a force for good. What should follow is not a patchwork of incoherent actions and programmes, but a portfolio across FCDO and Whitehall, as well as in each country the UK spends development resources, following clear need and opportunity for impact, but with clarity of the national interest involved.

- **A differentiated country model should range from a full partnership for development to a minimal presence,** which may be as little one staff member. In between, there should be different models for fragile states, emerging powers, autocratic states the UK cannot partner with, and middle-income countries where grant aid is not appropriate.

- In each country, a **"three screen"** process for determining the shape of the portfolio is recommended: where **need**, the UK's ability to make an **impact**, and the UK's **national interest** are considered together to determine what, how, and how much the UK engages.

- We recommend and detail **an active approach to deploying the UK's varied tools: experts, diplomacy, financial resources, CDC, the multilateral system, and UK and international policy action such as on illicit flows or tax evasion.** This toolkit can be supplemented by the UK institutions that act as (sometimes unwitting) ambassadors of its values, such as NGOs, faith-based institutions, as well as UK business—typically through non-financial support, with engagement driven by impact.

- We also argue that **now is the time to seriously build sovereign lending and guarantee instruments—a development bank**—giving us choice to support, in a financially prudent and efficient way, broader geographies or areas such as green infrastructure.

The hounds: Weakening accountability structures during a contentious process of institutional and strategic upheaval would be exactly the wrong move. The hounds should be kept at bay by the fox's ingenuity, but not completely dispensed with. The UK already has extremely strong structures of accountability, both internally and externally: they should be strengthened. Internally, it can be done by in the spirit of Michael Gove's Ditchley lecture: driven by the pursuit of value, rather than on endless and ineffective red tape to track only financial inputs. We argue:

- **Internal accountability systems should be structured around delivery of objectives both geographically and against cross-geographic thematic goals.** Accountability should incentivise and reward impact rather that counting inputs, and be built around transparent and evidence-based theories of change that can be challenged, but also help judge whether or not the FCDO portfolio is credibly affecting the objectives it is structured around.

- Externally, **the remit of the Independent Commission for Aid Impact (ICAI) should be changed to focus on overall development impact**, the value that is being created across FCDO (and the UK). It should be reconstituted as the Independent Commission for Development Impact, to focus much less on input tracking and much more on how the UK impacts the rest of the world, not just with aid but with, for example, research that improves lives in developing countries and trade practices.

- **Parliamentary oversight**, through the International Development Committee (IDC)—or an appropriate replacement mechanism—and National Audit Office (NAO) should be retained to maintain scrutiny of the objectives that are set and the efficiency of the department.

The rest of this note provides a detailed examination of these issues. It looks at objective setting, organisational structure and delivery mechanisms, optimally deploying and extending the instruments available to FCDO, and how to structure internal and external accountability to incentivise performance and impact.

THE HEDGEHOG: "BEING A FORCE FOR GOOD IN THE WORLD" AS THE UNIFYING CONCEPT FOR ALL FCDO DEVELOPMENT ACTION

The FCDO's vision offers a good starting point for being a values-driven force for good in the world, but also embodies potential tensions that should be managed, rather than left to seethe. We previously argued that poverty eradication, resilience including to climate change, security, prosperity, and open societies are well-established and worthy global goals for the FCDO to pursue. Taken together, and when pursued with a long-term perspective, they are in fact reasonable ways of describing development success in *any* country. But this is a starting point in objective-setting, not the conclusion. In this section, we set out an approach to pursuing them in a complex and varied developing world. The key point is that this may include a large range of actions, but that these actions may suffer from incoherence and ineffectiveness if pursued in isolation.

- **Core *values* may come under transactional pressure:** The FCDO aims to embody the values that the UK wants others to associate with it on the global stage. These values (though not explicitly set out in any single policy statement) include morality, fairness, transparency, and open and equal partnerships with many other nations. Occasionally, the transactional pressure to secure a contract (for example) may tempt some to ignore aspects of this. This would be counterproductive in the long run. The FCDO not only needs to avoid this, but it needs to be transparent and accountable enough that others know it really does embody the positive values it aspires to. The UK's geopolitical interests are only supported in the long term by acting in accordance with these values. Talking about UK values will not wash if they are simultaneously bartered away for short-term gains "because others do it too."

- **Long-run and short-run *actions* may be competing:** For example, direct support and UK-branded delivery may make good Twitter content and "prove" that we have helped, but without using resources now to build systems run by local partners and governments, we encourage dependency, not progress.

- **Long-run and short-run *objectives* may be contradictory:** For example, a transactional approach that wins (UK or foreign) public contracts for UK firms might be attractive today, but may come at the cost of genuinely UK-wide wins: efficiency in tax expenditure at home, and transparent competitive bidding abroad (which will benefit the best of British firms and sharpen our expertise, rather than creating dependencies of less-effective firms). Additionally, UK interests are served by consistently projecting values of morality and fairness, unlike some other powers.

- **Trade-offs in *how* to act:** Using FCDO money in richer places that have a more immediate impact on UK interests is deeply tempting but comes at a cost. Using aid money to pay for action is easier for the implementer and more visible, but also less effective in such places, where official development assistance (ODA) is but a drop in the ocean. It may also undermine the UK's interest in having these countries act as a force for good for themselves, without large-scale finance from external actors (even if they receive other support). Especially in richer countries, using evidence and diplomacy to induce independent action is better than using money to try to rent such action.

- **Direct versus indirect impact:** While poverty reduction may be achieved by directly targeting the poor, doing this sustainably may better involve indirect mechanisms, such as reducing conflict risks and increasing economic development and resilience, all essential for sustained long-term poverty reduction. It may sometimes be that certain kinds of direct support or even immediate poverty impact are not the best spending for poverty reduction—though sometimes it will be. Judging when each is appropriate is hard, but important.

The current combined portfolio of FCO and DFID, as well as across Whitehall, suffers from all these deficiencies, limiting the effectiveness of the UK's spending and human resource allocation as a whole. Development is multifaceted and can be affected by many of the FCDO's levers, but ultimately choices made will need to be in the UK's long-term interest. There is the risk that the merged department opts to fudge rather than directly confront this reality, and deepens rather than rectifies the tensions laid out above. To avoid this, the FCDO needs to adopt, in the language of Isaiah Berlin's famous essay, the clarity of vision of a hedgehog: in every decision, and action, the ultimate conceptual arbiter should be "is this consistent with being a force for good in the world on all dimensions of our mission?" Short-term inconsistencies or trade-offs may be resolved by taking a longer-term view: which short-term actions are most consistent with the long-term development of partner countries, and the projection of UK values? Taking this as a starting point, it becomes possible to conceive of what the FCDO's portfolio and organogram will look like.

First, a coherent approach will be helped by the recognition that there are rarely silver bullets, and development progress comes from the interaction of factors. For example, to sustainably keep girls in school as long as their male peers will not simply be about programmes that support this outcome directly (like teaching girls negotiation skills), but also reform of corrupt procurement practices across line ministries (accountability) as well as a boost to the tax system for better government revenue mobilization (prosperity) or indeed job opportunities for girls when they graduate through economic development (prosperity). Even before the merger, DFID had recognized that pursuing progress for the poorest, the bottom billion, tends to involve working on security, prosperity, resilience, and accountability, while the National Security Council recognizes that long-term development is essential for conflict and terrorism risks to recede in many fragile countries. Narrowing the themes or problems risks neglecting these complementarities, as well as succumbing to the tensions discussed earlier.

Second, the merger offers a direct opportunity to exploit this far more, and pursue better development by pooling resources, expertise, and diplomacy to pursue development objectives more effectively. The complementarities mentioned above are the key opportunity of the new FCDO. In fact, incentives should be created to ensure these complementarities are exploited: this is the way to avoid dispersed and incoherent programmes. For example: complementing development efforts to boost skills and retention of workers in industrial parks in Ethiopia or Kenya by Department for International Trade-style support to encourage UK firms to move supply chains from countries like China to these parks through investment or sourcing. Or using diplomats across Africa more in complementing maternal reproductive health programmes through high-profile engagement with social and faith leaders, complementing DFID-style interventions that supply maternal health services and family planning products; and coordinating FCDO-interventions to complement and not compete with multilateral programmes in which the UK has a financial stake as well.

Third, negotiating tensions across thematic foci will require a geographically based organizational structure that can mediate across them. A regionally based organizational structure allows for the coherence of objectives to be judged and managed according to the place and the UK's different geopolitical strategies in different kinds of places. It will likely be that the balance between short-term "wins" and long-term strategic support of UK objectives is rather different in, say, Uganda compared to Argentina. Being able to do both means taking something from FCO and DFID organizational structures. The FCO has long been a rather centralized organization, which may work for foreign policy as it usually is pursued, but is far less suitable for long-term development work. DFID had a more geographically decentralized structure, but had narrowed dramatically to 30-odd one-size-fits-all country offices, and had begun to rebalance towards centralization through the increased use of "centrally managed" (thematic) programmes run from the UK. The new organization will need to have a centralized approach to objective setting and management, inherited from the FCO. But from DFID it should take decentralized action, since the scope for impact is highest at the local level, be it the country, the region, or at the headquarters of a multilateral: this is where the opportunities, constraints, levers, and context for the highest impact are best understood. Note that to have impact locally, using FCDO resources at international fora will also be required.

This new structure would have need for fewer (centrally managed) thematic programmes. Exemptions must be made for: (i) working with multilateral organizations or development banks (as these are large and global or regional programmes); (ii) working with specified organizations in partnership (such as Global Innovation Fund, Centre for Disaster Protection, British Council, or the best global NGOs); or (iii) working on programmes with defined but indirect impact on development, such as the current large and impressive global research portfolio and other work with universities. These excepted, there should be far fewer large complex programmes across multiple jurisdictions run by UK-based accountancy or consultancy firms. While ex-ante, this centralized model has made design features such as attention to the best science and evidence better, their (very) indirect delivery, with no ownership of local embassy or DFID staff, has meant coherence, accountability, and quality control has been much harder, with unclear impact. The FCDO will need ways to promote evidence-based decision-making and careful monitoring and evaluation while protecting local delivery. This in turn implies a balance between centralized strategy and accountability structures, with country-based decision-making around actions and implementation. Setting up accountability in such a structure is discussed in the final part of this note.

Protecting local delivery across a wider geographical domain requires a differentiated country model. To deliver effectively where impact can be had, there can be no one size fits all. The next section discusses this further.

THE FOX: MULTIPLE MODELS FOR WORKING ON DEVELOPMENT

The FCDO has a geographical scope and influence that is larger than either of its progenitors, and with the world as its oyster, it needs to think carefully about where to use its diplomats, expertise, and financial resources for development impact within the UK's enlightened national interest. We propose three screens that all proposed actions in support of development need to clear; this is true in all geographies, and for all objectives.

- **Need:** Is there a global or local development challenge, consistent with FCDO's overall objectives?
- **Opportunity:** Is there a way of using FCDO resources in a way to have an impact on this challenge, especially if otherwise it may not happen? In short, is development impact likely?
- **UK national interest:** Is solving the challenge and the way it is done in the UK national interest? It would be tempting here to pursue narrow short-term interest, such as through tying aid, promoting specific companies, and more. We don't think that is productive, as it will undermine the UK's long-term national interest, which is more important in the end. In all its actions and behaviours, FCDO should project UK values, including transparency, accountability, open societies, and open competition. To truly embody UK values, FCDO cannot be seen to undermine it for short-term gain; it should instead dare to contrast UK actions with those of other players in the UK's geopolitical spaces, rather than mimic them.

However, in applying these screens, a differentiated country model for development work should be used, each with different resources and carefully tailored staffing. In principle, there is need and scope to pursue FCDO objectives in all 140-odd countries that satisfy the ODA definition of a developing country. Trying to do so with the same kind of money + people + investment approach is unlikely to be effective. Returning to Isaiah Berlin, this is where the FCDO must be a fox, with diversity of action and approach. We can identify at least six models, each identified through a careful assessment of need, opportunity, and UK national interest. In practice, this could be more of a sliding scale, and hybrids may emerge. In any case, it moves FCDO away from a one-size-fits-all approach, and also forces explicit choices to be made, based on need, opportunity, and UK interest. These can then be the basis for incentives and accountability that drive delivery and innovation, as will be discussed. A key point here is that each model requires a different kind of staffing, but in all, carefully choosing the right mix of skills is crucial. The FCDO will need analysts, programme managers, and diplomats, but the balance between them will vary by partnership type and place. The six types of development programme (since naturally, not all countries will have one) are:

1. **Partnership for development.** A full-blown country development programme based on *need* in terms of development challenges and defined by the *opportunity* of a close long-term partnership with the host government for development consistent with the *UK national interest*. The perfect should not be the enemy of the good: this should not be a relationship based on conditionality, but on broad shared interest, even if at times there are difficult moments. The full range of tools and instruments of the FCDO ought to be used here, proactively. A few dozen countries be suitable for this model, especially in Africa and Asia.

2. **Human needs programme.** A more restricted programme, focused on alleviation of human *need*, such as extreme poverty or extreme events, projecting UK values, but where a close partnership is not compatible with UK values—such as in some autocratic states or with other challenging polity. There may be scope to expand into a partnership for development when *opportunities* arise, such as political change. Resources may be used to meet humanitarian or basic needs, but this is likely to be a limited development programme; still there may be *opportunities* as well, to promote the economy or work with other non-state actors. A dozen countries may well be in this case.

3. **Fragile states programme.** A variant of the previous case would be a setting where there is *need*, but where there is also an important conflict, stability, or security dimension. It is plausible that a real partnership is unlikely to be possible, but there may be *opportunities*, and a more important role will emerge for diplomacy, the Ministry of Defence, and other Whitehall assets as well in line with *UK national interest*, beyond a development orientation. This model will require deeply skilled diplomats; UK diplomatic presence in places like Sierra Leone have been powerfully positive influences in the past. A dozen countries may be in this category—the most conflict-affected and fragile states.

4. **Middle-income development programme.** A further type, possibly a variant of (1), (2) and (3), but a country with substantial development needs similar to poor countries, but already well into middle-income status. Here, the full range of tools should not be used: those involving substantial concessional resources are not appropriate, even if some are tempted to use it to buy favours: long-term development would be undermined if aid were to substitute for development that is based on locally mobilized resources. Engagement here should seek to bring forward local state capacity, not to replace it, by deploying evidence and pushing for our investments in the multilateral system to do what is needed.

5. **Emerging power programme.** A country-engagement defined not on the *needs* of the country per se, but more on the importance of the country for *global challenges*, such as climate change, security, or global prosperity. This would typically be large middle-income countries, such as India, Brazil, China, or UAE, where there are *opportunities* for engagement on global issues, and where despite geopolitical tensions the UK is well placed to have impact. The focus will be on the range of non-financial instruments at the disposal of the FCDO and the rest of Whitehall. Here, too, diplomacy will be an important part of the arsenal. The art of persuasion more than might will be required. Around half a dozen would satisfy this criterion.

6. **Minimal programme.** In the final group of countries, the largest, the FCDO will have only a rather tiny development presence, essentially most of the remaining ODA-eligible countries. These are likely to be settings not scoring highly on at least one of the criteria of need, opportunity and

national interest. We still suggest that in these places there is a small fund and at least one dedicated staff member—very carefully chosen for the skills most needed there—whose tasks include monitoring economic and development progress, and who actively engages with development debates in the country. At the minimum, this offers a way of leveraging the UK contributions to multilateral development banks and other multilateral organisations, who are active in all countries, and which the UK supports and can influence via its usual representations and board memberships.

To select countries and to build up the strategic portfolio within each country, the three steps of need, opportunity, and UK national interest again offer a useful framework to develop a strategic portfolio of programmes for development impact. Recall that the five global goals set a vision for the FCDO, but not a guide for practical action in the countries in which it operates. Not all of them will be appropriate everywhere, nor will the UK have the capacity or mandate to act everywhere. It would be absurd for the FCDO to trumpet its commitment to poverty reduction in Turkey (poverty rate 0.1 percent), or to promise a rich and equal economic relationship based on trade and investment in South Sudan. How then can we get an effective strategy at the country level?

Assess need and turn these into possible local UK objectives

There are two steps here:

- **A partnership approach to objective setting.** It would be very tempting for the UK to decide what other countries need. However, the most effective development occurs in partnerships. So the first step is to build an understanding what the partner may value—its own (enlightened) self-interest. Each FCDO mission should work with key players in the country to set out a collective vision for what they want to achieve. This means working with governments, the private sector, and civil society to consolidate an understanding of what the country is trying to achieve over the next five to ten years; no massive consultative process, but a fair statement of the country's objectives, for its own development but also for its contribution to global development challenges, such on climate change, conflict resolution, or prosperity. Doing this requires having the right people engaging in-country: diplomats, yes, but also economists, private sector specialists, those with expertise in health systems, and the like. In doing this, the FCDO must be an avatar for the UK's ambition to be a moral force for good. The result of this partnership cannot be a white elephant football stadium, no matter what the promised return is. Other players may operate this way, but it would be a failure if the FCDO follows them.

- **Assess where the UK values objectives the local government doesn't.** In many places, domestic politics leads to choices that are at odds with the UK's values. The state in Myanmar, for example, may have little interest in supporting the basic needs of the Rohingya, while the UK does. In Nigeria, a focus on the poor is often lacking. In such cases, there is a case for what is essentially humanitarian support, though a balance must be struck: the UK should not simply substitute for the state long-term. Similarly, there may be less attention to global challenges, such as those related to climate change or biodiversity. Again, the UK should not replace the state in acting, but look for ways and entry points to pursue these agendas in partnership.

Identify the FCDO and UK government opportunities

Again, two steps will help:

- **A fair assessment of where the UK can be a valuable partner.** In each place, on the basis of these objectives, an assessment of what the UK can reasonably contribute to, and how, is needed. Donors are fond of considering their "comparative advantage," but in reality it is their absolute advantage that determines if they act or not. The UK should only act where there is an expectation that the tools available to it can be effective, based on the available research and evidence, and where UK action adds value, i.e., there is additionality, such that if the UK were not to support, it would not happen. DFID's approach to evidence should not be jettisoned.

- **Assess the case for global or regional investments and actions in support of the country.** Much of what will eventually make a better world will require global or regional action: investments to combat climate change or in research and development for improved crops, for example. There will sometimes be a case for investments in these global or regional goods to be made by or in a specific country. Such decisions are usually made regionally or globally, rather than unilaterally in a developing country. Often, the UK, using its global influence, can be far more useful than any specific actions inside the country, an opportunity to make use of the connection between the FCDO's development and diplomatic functions. If there are investments that are made in one country on the basis of its contribution to global goods, the local development return should justify the investment: it will not be consistent with the FCDO's mission to use ODA for investments that primarily benefit the rich.

Assess the UK national interest

It would be the height of naivete to assume that the UK's geopolitical interests will play no part in determining the FCDO's specific role in different countries. While it legitimately aims to be a force for good in the world, it is also a vehicle for UK interests. It should pursue these in a fashion that does not compromise its mission as a development actor: its actions and behaviours will shape its influence and long-term interests. For example, trade promotion will inevitably be part of what the FCDO does in some countries; but to be a success for the department as a whole, it should not be pursuing a few more sales of a consumer brand today at the expense of longer-term economic development and the support of a stronger trading partner down the line. Also, we should be conscious that in this multipolar world, geopolitical competition is on the rise, but it remains important that the UK plays by rules of game consistent with UK values, and not descend to the values in doing business or politics of others.

A HEDGEHOG IN FOX'S CLOTHING: USING THE RIGHT TOOLS FOR THE RIGHT PROBLEMS IN THE RIGHT PLACES

The goals the FCDO has set for itself are difficult, with poverty traps, instability, and even relatively luxurious middle-income traps to negotiate; and to make an impact on them, the FCDO must be willing to use the full set of tools it has to hand. Understanding the complexities of these development problems has long been a great strength of DFID, well populated by hedgehogs. Specialists with decades of experience provide advice and analysis: DFID has strong cadres of economists, anthropologists, and political scientists, to say nothing of its excellent health and education specialists. It has never, however, quite made the most of the varied tools the UK can bring to bear on its international mission. This is an area where the FCDO can improve on its predecessors. It has the toolbox of a fox, with many instruments and mechanisms to exploit, each of which are highly specialized and valuable. It needs a widely differentiated approach to deploying these tools according to the local context it is engaged in, and the objectives it has set.

Using the right mix in the right places to pursue the FCDO's objectives is key: the more that tools and instruments are used in complementary ways, the higher the likely impact. The toolkit is diverse and much more than just money and people. We highlight the primary instrument set, but also other sources of influence and potential development impact. The key is that the right incentives and structures are in place that the full set of instruments is considered: this will be discussed further below.

The primary instrument set consists of mainly of people, diplomacy, financial resources, the multilateral system, CDC, and UK policymaking.

- **People:** Though easy to forget, one of the most potent tools the FCO and DFID have is their footprint. There are staff all over the world and many are widely respected as leaders in the field. Deploying the enormous capability the FCDO inherits is not trivial. The key point is that the staffing mix should be chosen to match the tools in use in a country, and the objectives it has. DFID also had a pool of high quality locally recruited non-UK staff and finding a way to resolve their status will be beneficial for future effectiveness.

- **Diplomacy:** Diplomacy can be a development tool, as well as a tool for pursuing UK interests. Much of what matters for development is getting political forces to align behind it. To achieve development outcomes, the FCDO should be looking to broker agreements as well as simply spend. This applies bilaterally with governments, as well as in civil society, and to multilateral agencies and other international fora. In fact, it is this addition to the development space that will make the FCDO a fox. For example, solving the endless humanitarian crises in Eastern Congo and promoting serious economic recovery requires political engagement in Kinshasa as well as in Kampala, Kigali, and Nairobi; but it will also require better certification of diamonds or coffee and an end to wildlife poaching, as their smuggling feeds the conflict. Action thus extends to New York, Beijing, Antwerp, and Johannesburg.

- **ODA:** Though to some eyes the treasure at the heart of the merged department, pure grant ODA is actually one of the least versatile tools that FCDO will have. ODA isn't good at fundamentally shifting incentives since it requires so little of the recipient organisations other than an account of its spending; and doesn't do much in terms of building commercial relationships or resilience. Ultimately, it is good for investing in the social sector, and for financing some technical assistance, but it isn't the Swiss Army knife some think it is. The idea that a grant here or there will open magic doors in upper-middle-income-countries of great strategic importance is misplaced. In fact, it risks sullying the very values the UK wants to project, and gives grief through endless reputational damage, at home and abroad.

- **Multilateral system:** Multilaterals have a great deal of access and can get entry, influence, and achieve sheer financial clout in places where the UK alone simply cannot. They must be seriously invested in. The UK's security (peacekeeping), health (GAVI, WHO), economic stability and partnerships (World Bank, IMF) all depend on a well-functioning multilateral system. The UK has perhaps neglected the support for some of them by using only its financial clout, often in return for either unrealistic or peripheral objectives, but now it should put diplomatic and political capital towards making them more effective *as multilaterals*, and putting the UK at the top table at each. Where the UK bilateral footprint is small, the UK still has a voice, with the multilateral system playing the role of the trojan horse: it should always invest in knowing what they are doing in the development space. Where the UK presence is more substantial, the multilateral system becomes a key player, and it still needs allies to help with the political work, which they cannot handle well. Using UK diplomatic and other resources and clout to amplify and direct the multilaterals' role on the ground can make them much more effective as well.

- **CDC:** Using CDC more effectively in pursuit of economic development should be a priority for the FCDO. Development finance should be used to invest in pioneer firms and support development in sectors of the economy that have potential but face first-mover problems. This approach can support the UK's broader interests in economic resilience in development-friendly ways we haven't even started to probe. To gain access to production from other countries, for example, the UK can invest in it, rather than trying to use vanity projects as a kind of bribe for access (which is much more expensive and much less credible). And to build resilience in supply chains, concessional investment rather than regulation alone, or a scramble for scarce resources, is sensible. The UK can both reduce that scarcity and get to the front of the queue for what is produced by investing well, especially in places where we can pioneer markets.

- **UK and international policy:** It is, of course, not just development policy and spending that impacts upon developing countries. The UK has an important role to play in supporting development through its domestic policymaking and international influence. Continuing to tighten laws on illicit financial flows, and making it more difficult for corrupt actors in other countries to use the UK to store their ill-gotten wealth, for example, could be an important development policy, even though it may be entirely driven by domestic concerns. Similarly, the UK's role in pushing for fairer international trade, or policies on patent drugs and the like could be just as important for the fortunes of developing countries as anything in the "development" portfolio.

To build this toolkit further, there is a strong case to create a development bank, which would be a powerful in the UK's pursuit of avenues for impact in larger, richer, geopolitically important geographies. There are many countries where grant aid, and even CDC's (commercial) investment functions, simply do not offer a credible entry point for sovereign partnerships, but where there is a strong need, opportunity and national interest case for acting, for example in the funding of green infrastructure that will have both local and global benefits. These countries will often be getting IBRD or concessional loans, or some blended instrument, and while the UK is a shareholder with some influence on this, it is restrictive that this will often be the UK's only serious financial entry point—it can only act collectively and at scale. In the spirit of being a fox, the UK needs more tools.

A UK development bank offers a route to important sovereign partnerships in places where grant aid may be patronising, but where the UK's credit rating and expertise is useful. Giving grants to countries like India, Peru, Columbia, Vietnam, South Africa, Tunisia, or Egypt patronises their place in the world and uses taxpayer money inefficiently—grants go much further in other countries. But these countries remain important, and can instead afford (and benefit from) loans or blended finance at rates from a UK development bank that are cheaper than they will access from the market, and can be accessed together with development expertise and other aspects of the FCDO offer. This offers a way of structuring sovereign partnerships that meet the needs of the recipient country, come in an instrument of an appropriate scale to the problem, and helps the UK achieve national interest objectives, while avoiding the reputational risks and financial inefficiency that come from giving grants where they are not obviously needed. One sticking point in the past has been the reluctance of the Treasury to sanction such an instrument, but if there is genuinely to be a Green Investment Bank 2.0, it can be made international. Commercial returns can subsidise concessional investments both at home (non-ODA) and abroad (partially ODA).

The UK should not ignore further indirect UK instruments set to promote development in ways that project UK values. Across the developing world, UK NGOs and faith-based organisations are active; UK universities recruit students and have alumni and conduct research; UK organisations spread language, culture and ideas, such as through the BBC; and UK business invest to contribute to economic development, or engage in import and export of goods. They all tend to serve the UK national interest through the way they project UK values and through their diversity, actions, and behaviours, contributing to the UK's place in the world. They are a source of soft power, distinguishing the UK from other global forces and contributing to the quality of development locally. Some would like the full might of FCDO resources to support them all, subsidising their actions to a large extent; we argue that any such spending should be judicious and assessed strongly against likely impact and cost-effectiveness. A few principles are useful, nevertheless:

- **NGO and faith-based organisations may be useful partners of the FCDO judged on their development impact on the ground.** It would be reasonable to have a mechanism to fund their activities, provided they seek and are accountable for impact and represent a relatively efficient way of achieving this impact. Given that usually they have shared development objectives, treating them as partners rather than contractors is far more effective (unlike how it has evolved in recent years).

- **Spending on UK-based institutions should be structured according to the development impact they can achieve.** More generous and barely monitored research grants on the lines of the Newton Fund are not the appropriate model. Instead, London-based mechanisms of funding universities and cultural organisations may be pursued, complementing long-standing scholarship schemes, but need to be rewarded for and incentivised towards stronger impact in developing countries.

- **Business in the UK is usually not conducted based on large-scale subsidy in normal times, and this should apply, too, in developing countries: this is not the UK way of doing business.** There are good reasons why the UK has strong standards and transparency rules for public procurement—it is to avoid wasting public money. The fact that in some developing countries, they are violated by some is not a good reason for the UK to lower its own standards and offer contracts based on the flag on the trademark, rather than the quality of the bid. However, there are many appropriate and effective ways to support UK business to good development effect. Obvious instruments such as trade finance should of course be available. Connecting UK firms with CDC for exploring investment opportunities would also be an important route to bring UK business into new sectors and countries. Furthermore, using FCDO and other Whitehall-funded staff to help with entry and local connections is appropriate as well. There are excellent examples of other support, such as using limited resources to improve compliance with economic, social, and governance standards in difficult environments or support to UK firms to develop local supply chains, all with high potential for development impact. Even more useful are programmes that improve the investment climate, improve local market functioning, and identify opportunities:

all these countries need investment not least that create local incomes and jobs. A cautionary approach, though, is essential, as long-term risks for damage to the perception of the UK values in development is real. Even if some others behave differently, the role of the FCDO will not be to join them in trashing the values of transparency, accountability, and belief in markets and competition, but rather to shine a light on the sharp practice of others.

THE HOUNDS: PURSUING IMPACT AND INNOVATION THROUGH OVERSIGHT AND ACCOUNTABILITY

We have painted a complex landscape, with difficult terrain and many choices for how the FCDO will respond; navigating it will require guidance from outside. The civil service has many great strengths, and between DFID and the FCO, there is a wealth of analytical ability, diplomatic talent, and deep knowledge of such specialist subjects as statistics, economics, and the medical sciences. Our starting assumption should be that with the right deployment of skills to problems, effective plans, strategies, and programmes can be designed to affect much of what is within the reasonable ability of an outsider to affect. However, no organisation is immune to groupthink, confirmation bias, or sunk cost bias. Good people need to be placed within an infrastructure that rewards impact; that identifies, learns from, and curtails failure; and that provides a check on the hubris that a large department and a large budget come with. Without this, the FCDO will go the way of many large organisations: settling into a pattern of doing the same things repeatedly and failing to learn new tricks, or stop doing ineffective things.

The infrastructure to avoid this may look prosaic, but as Michael Gove pointed out at Ditchley, "there is … a tendency in government to … overlook the boringly transformative." We argue that, though not the exciting changes some may have in mind when they speak of civil service reform, doing simple accountability well is as important as cognitive innovations such as red-teaming or peer review (both of which already exist in some form in DFID in any case). Gove went on to remark that "I believe … delivery on the ground; making a difference in … the lives of others should matter." We agree, and set out an internal and external scaffolding designed to push people towards delivery and achievement, rewards innovation and is built around achieving the FCDO's vision is possible.

First, an internal culture of incentives and accountability structured around a theory of change about how the FCDO will bring about positive change in the world.

Second, a continuation of existing scrutiny of the use of resources to deliver development results: the NAO and the IDC or a new avatar thereof. These can focus on scrutinising what the FCDO prioritises and how it uses its resources to promote development

Third, an expanded and empowered Independent Commission for *Development* Impact, which goes beyond ICAI's remit to examine the development impact of UK government actions as a whole, with a beyond-aid remit that looks at whether the whole set of policy, trade, investment finance and CDC, diplomacy, and aid are working together to deliver an impact on development issues.

Internal accountability

At the moment, DFID and the FCO have rather different accountability dynamics as departments. In the FCO, there is a great deal of centralisation of policy direction and ambassadors have a clear line to directors-general in the FCO, and ultimately to the Foreign Secretary. In DFID, distributed accountability is strong: every spending programme is associated with an identified responsible officer so almost nothing is spent without someone being responsible for its propriety. However, there is much less coherence around what to deliver and over what time frame, with decisions taken at post much harder to influence from the centre.

Meanwhile, as far as ODA-spending is concerned across Whitehall, accountability incentives are largely structured around either need or national interest, or spending propriety, rather than impact and true value for money. There are notable exceptions to this statement, but the experience in the last decade can be summarized as follows:

- **DFID spending has too often tended to focus on countries with high need, and not necessarily driven by the ability to have an impact**, a "theory of change" based on evidence, but instead with the assumption that resources will make a difference. Challenging examples are some (former) large programmes to promote economic growth or better governance in failing and predatory fragile states with high levels of poverty.

- **Whitehall spending has too often focused on problems faced by the UK without a clear route to development impact, or in fact, *any* impact, even in the national interest.** Examples are some prosperity-focused programmes or some of the development programmes that aimed to stop migration from Africa to Europe. While they responded to clear political incentives, and made for great ministerial announceables, they were hard to justify based on the value created, even in the national interest.

- **With increased scrutiny of DFID and government, Whitehall and press scepticism on the value for money of UK development spending, DFID defaulted to input monitoring at the expense of real emphasis on impact.** Ministers pushed for increasingly stringent and elaborate procedures to track and monitor its spending, creating endless process and red tape, to the despair of anyone working with DFID outside Whitehall, and reducing the scope for real impact. Michael Gove correctly identified that the creation of value has not been incentivised enough within Whitehall. Existing accountability structures such as from the Treasury are, he says, "very good at questioning the cost of projects, but not their broader social value." There has definitely not been a commensurate scrutiny of the pursuit of value as there has been of the money part in "value for money."

We propose an accountability structure that takes elements from each of FCO and DFID but is built around impact rather that inputs. With objectives set in line with the process set out above, accountability needs to combine not just need (local and global development challenges) and the national interest, but also whether there is an opportunity and route to impact, including process (e.g., is this genuinely developed in partnership with the developing country), strategy (how will impact be achieved? What evidence is there that this may be successful? Is the approach to achieving these objectives making appropriate use of the full set of tools available? How will it be implemented), and impact (what is the final likely effect of FCDO action). This is not a call for endless evaluations or impact studies, but rather for extending the FCO's centralised accountability for policy to also cover development, focusing on the goals the FCDO seeks to achieve. It moves it closer to DFID's current rigorous approach to spending: business cases that carefully set out the alternative approaches to achieve objectives, independent (internal) peer review to keep this approach honest and focused on impact, and clarity of accountability.

Accountability will follow from internal transparency, creating scope for internal scrutiny and peer review and upward accountability inside the organisation, and setting the stage for appropriate external scrutiny, for all development activity across Whitehall. The more transparent and systematic the basis for approving specific development programmes and activities, the more straightforward accountability can be organised, before, during, and at the end of programmes.

- **First, a structured assessment of the three elements—need, opportunity for impact, and national interest.** Before approvals, the opportunity for impact should be worked out, allowing an assessment of the likely impact, therefore with a clear sense of process, design, and implementation strategy. No approvals should be made just based on need or national interest; approvals should be explicitly linked to likely impact, which in turn can only be assessed through a worked-out plan including for implementation and including the best evidence. Clear incentives should exist to encourage coherence and the use of all possible levers for impact. For larger programmes, independent internal peer review and quality assurance can provide appropriate challenge and improve quality, and contribute to honest assessment about how much value is likely to be produced for the money and other resources committed.

- **This structured assessment provides a basis for regular review, requiring statements on progress, quality of delivery, and explicit recording on any changes or challenges to likely impacts, all the way to the end of programmes.** Monitoring systems always should be designed around the "theory of change," the assumed causal means by which impact will be delivered. Key is to monitor the assumptions involved. Likely impact will change or be challenged because these assumptions were wrong or key parts of the theory of change break down. Programmes that are designed to have feedback loops and can course-correct are then likely to be more impactful, and such corrections should be strongly encouraged and incentivised. However, at the same time, if circumstances change, and likely development impact becomes low for the resources committed, programmes should close. Again, honest and careful recording ex-ante and throughout the programmes are required, and quality assurance processes should be used.

- **Scoring methods on need, likely impact, and national interest could be developed, as well as for various sub-parts of programmes.** By recording them at the time of approval, it offers a benchmark to assess and report on progress in regular reviews. Also, it allows portfolio management by countries, themes, or regions. Note this is different to procedures DFID used in the past, which assessed progress relative to programme specific goals (which could be of high or low value in terms of development). An assessment of development value and progress to impact is absolute, and more suitable for portfolio management. Note also this is different from monitoring quantitative indicators. They may form an input, but the scores developed should not typically be based on rigid formulas: instead it is possible to use scores on scales, with a qualitative (and sometimes quantitative) justification for their levels. Organisations such as the EBRD have used such processes, creating more transparency and scope for aggregation.

This bottom-up approach to accountability, programme by programme, is definitely not enough: there will need to be senior accountability for how portfolios are constructed and for their performance, across geographies and themes linked to the FCDO's objectives. In the first section, we argued that for the highest possible impact, a geographical organisation for local objectives, programme construction and delivery is likely to be most effective. However, there has to be overall accountability at the regional or global level, not least as the world is interconnected, and highest impact on the ground will need to be delivered by pulling all levers and using all instruments. It would mean that not just each country, but also each region should have a broad strategic approach (substantially built up in a decentralised fashion) to the FCDO's objectives, and a theory of change as to how they will be achieved that can be monitored also centrally.

Furthermore, for programme development, it will be necessary to have senior *thematic* leads (and small associated teams). These can support in the development of programmes with the right expertise. In practice, their main role is likely to be advice and quality control, guided by a strategic approach. It suggests a layer of senior accountability for both impacts and outcomes by themes (such as aspects of poverty reduction, and resilience) and by geographic regions. The bottom-up approach of programmes and their performance scores ex-ante and during implementation, assessed relative to the underlying strategic approach would provide the basis of this senior accountability. Without such processes, conducted in transparent ways, it is hard to see how strategic portfolio management will take place, whether at the country, thematic or global level across Whitehall. It would also form part of the normal lines of accountability in the organisation, including to the Foreign Secretary and the team of ministers, who should then engage in oversight of strategies, the construction of portfolios and their performance.

External accountability

The impetus for improvement and innovation cannot be solely internal, however. External scrutiny plays a role analogous to competition in the private sector, demanding improvements and accountability for achieving results from public funds. The existing structures should be built upon. The IDC and NAO perform distinct but important functions. The IDC (or whatever form parliamentary oversight will take) has the mandate to consider whether the FCDO is doing the right things to support development; the NAO investigates its efficiency in doing so. These functions need not change, but they need to be supplemented by an impact-focused form of scrutiny. For despite its name, ICAI is rather less biting on impact than it is on inputs. It has more often considered whether or not aid money was being used effectively by specific programmes—criticising the Newton Fund for its poor spending on innovation in poor countries, for example—but rather rarely considered whether, for example, UK innovations have increased human welfare in developing countries.

Reconstituting ICAI into ICDI, focusing not on aid impact but on development impact, and clarifying its remit is another step to higher quality external accountability. ICAI has done some useful things, but it was never totally clear how it added value. A focus on aid is in any case not appropriate: it should focus on development impact in a comprehensive way, now that FCDO brings together a larger range of levers, including diplomacy, and is likely to set clearer norms and possibly rules for coherence and effectiveness of development activities across Whitehall.

ICDI should structure more of its investigations explicitly around the impact achieved over the whole development portfolio, beyond aid. For example, rather than focusing on whether spending on maternal healthcare programmes have achieved much, the relevant question is whether UK policies (whether at home or abroad) have made sufficient impact on maternal mortality in developing countries. This should encompass aid spending, surely, but also whether research and development for the UK market was considered and adapted for developing countries (this would be extremely salient in healthcare and agricultural technologies, both of which have applications in developing countries that are likely to be neglected by the private market). Similarly, the UK's economic development portfolio cannot be considered for impact on poorer countries without consideration of its trade policies, which may considerably expand or may drown out the benefits of a specific investment funded by ODA. The whole of development matters. This could then play a crucial role to boost the overall development impact of UK activity.

In doing so, ICDI could draw on expertise from leading academics (from across the world), southern civil society institutions and think tanks, NGOs, and implementers like BRAC. This will help to genuinely interrogate whether the UK and the FCDO (and Whitehall) are doing the best available things and create the highest possible value in support of development.

Transparency and openness to constructive external challenge are essential tools for improvement. Without this sort of accountability, there is a real risk that large parts of the FCDO portfolio will simply drift along, achieving not much. It is a huge department with a huge mandate; one arm will not know what the other is doing. Managing a large department effectively cannot be the job of one minister, even with a small battalion of junior ministers. External scrutiny will help. It must be set institutionally and set in stone. Otherwise, worse than the waste of money will be the squandering of the very gains that a merger was undertaken to achieve.

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